



University of Toronto

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Memorandum to: Business Board
Date: June 12, 2002
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Item Identification Item 9(b)

Risk Management and Insurance Annual Report

Jurisdiction:

The Business Board Terms of Reference call for regular information reports on financial matters.

Sponsor:

Felix Chee, Vice-President Business Affairs and Chief Financial Officer

Action Sought:

This is a report for information about the University's risk management and insurance program. No action is necessary.

Highlights:

The University has a comprehensive insurance program in place with quality insurers and service providers. Despite turbulence in the marketplace as a result of September 11 and other events, we emphasize the importance of stable, long-term relationships especially in regard to pricing and scope of coverage. Our strategic objective is to reduce loss potential through vigilance and good risk management practice.

The Director, Risk Management and Insurance and the Vice-President Business Affairs have reviewed the comprehensive program of insurance coverage and risk management practice that are the subject matter of the attached report. It is our judgement that the University has adequate protection from losses.

Financial Implications:

Financial results improved during the year primarily due to fewer large claims and the University's insurance coverage, and financial reserves continue to provide good protection against the multitude of diverse risks that it faces. A number of insurance claims were managed during the year and there were no large or serious claims incurred under any of our policies. Custom construction insurance packages for the various major capital projects underway on the three campuses were negotiated.

FOR INFORMATION

RISK MANAGEMENT AND INSURANCE

ANNUAL REPORT TO THE BUSINESS BOARD



**Business Affairs Division
Risk Management & Insurance Department**

June, 2002

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OVERVIEW

Financial results improved this year in the University's Risk Management and Insurance program. Our self-insured claims experience was better than last year due to fewer large claims. Computer and other electronic equipment thefts are a recurring problem even though in many cases departments have taken reasonable preventative security measures.

CURIE (Canadian Universities Reciprocal Insurance Exchange) is the cooperative risk sharing pool created in 1988 by universities across Canada to underwrite their core property and liability insurance risks. It is wholly owned by its 50 member universities representing more than 85% of the total student population in Canada. CURIE is licensed in each province where it has members and has its offices in Oakville, Ontario. It has a staff of 5 persons and is accountable to its subscribers through an Advisory Board constituted of regional member representatives.

The University's insurance program through CURIE and the commercial marketplace felt the first negative effects of Sept. 11th at the end of last year and there are more troubles to come. The insurance industry is raising prices and shrinking product at an alarming rate. While CURIE has been able to mitigate some of these, it ultimately has to pass them through to its subscribers. CURIE has also warned that due to its own worsening claims experience, premiums will increase significantly again next year and they are mandating a study of insurable property values which may also raise premiums. CURIE's surplus (the amount by which total assets exceed total liabilities) went up slightly from \$6.7 million to \$7.2 million last year after suffering a sharp decline of nearly 37% the year before. CURIE again did not make any dividend payment to its subscribers last year.

The Canadian property-casualty insurance industry had a poor financial year in 2001 with a relatively paltry return on equity of 3.0% mostly offset by an inflation rate of 1.7%. The industry's lackluster performance was exacerbated by the decline in equity markets which produced a negative effect on investment earnings. But the impact of Sept. 11th on insurers worldwide (total insured losses estimated between \$40 and \$60 billion U.S.) dramatically accelerated the market hardening which was already underway. Insurance consumers can expect to see double-digit and higher premium increases coupled with shrinking and, in some cases disappearing capacity over the next few years. Coverage availability, adequate limits and pricing will be serious issues for insurance consumers for the foreseeable future.

GENERAL UNIVERSITY INSURANCE

These are the centrally funded insurance policies we purchase against normal property and casualty risks to cover all operations of the University. The individual policies and premiums are detailed on page 6 and the following narrative provides highlights for information.

- i) **Main Property Policy:** "All Risks" of physical loss or damage to University buildings and contents on repair/replacement basis with \$650 million limit of loss, subject to \$250,000 deductible. This is the major CURIE policy which insures against perils such as fire, windstorm, water damage, theft, etc. ***For structural details of this and our other policies, please refer to the graphic on page 4.***
- ii) **Liability Policies:**
 - **Comprehensive General Liability:** Through CURIE, we have \$20 million per occurrence limit of loss against legal liability arising from University operations causing bodily injury, personal injury or damage to property of others, subject to \$5,000 deductible. The CURIE policy wordings are specially designed to cover university risks such as sporting activities, contractual undertakings, student practicums, incidental medical/dental malpractice and so on.
 - **Errors & Omissions Liability:** Through CURIE, we also have a policy with \$20 million limit against liability for wrongful acts. *The premium is included in the general liability policy premium.* CURIE retains the first \$3 million of risk and purchases \$17 million excess limit through reinsurance in tandem with the general liability policy. In the private sector this coverage is also called Directors & Officers Liability. It protects governors, officers and employees from claims alleging that an appropriate standard of care was not met or that an act was somehow tainted (misstatement, misfeasance or misconduct).
 - **Umbrella/Excess Liability:** For added catastrophe protection, we purchase a total of \$15 million additional liability limit from commercial insurers to cover on top of the two CURIE policies and our automobile liability policy.
- iii) **Boiler and Machinery Policy:** Comprehensive machinery breakdown coverage on boilers, pressure vessels, electrical and mechanical equipment (motors, transformers, switchgear, air conditioning units, etc.) on repair/replacement basis with \$100 million limit of loss, subject to \$15,000 deductible for all objects except large chillers which have \$100,000 deductible. The cogeneration facility is included in this coverage but at \$100,000 deductible. This policy is purchased from commercial insurers.
- iv) **Crime/Fidelity Policy:** We carry a comprehensive contract with \$25 million limit of loss against theft of money or securities and the fiduciary responsibility of employees, subject to \$5,000 or \$25,000 deductible, depending on category of coverage. This contract is purchased from a specialty commercial insurer.

- v) **Personal Professional Property Policy:** To provide added security for loss to property owned by faculty or staff which is used in a professional capacity and which is located on University premises, we carry a contingent policy to guard against an uninsured loss, i.e. where there is inadequate coverage provided by the individual owner. This policy has \$50,000 per person limit.

Our main policies and how these fit together are illustrated on page 7. In the notes, the term "reinsurance" is used to describe insurance purchased by one insurance company from another in order to spread risk among insurers.

USER-DIRECTED INSURANCE

We purchase certain policies which are grouped on page 6 for the specific needs of departmental users who pay the premiums. These policies, for the most part, are relatively stable over time in terms of coverage and availability.

Major new construction activity is underway on our campuses and we have bundled all the current large capital projects together under one master "Course of Construction" (COC) policy to provide better terms at less cost than buying individual project policies (500 University Ave, Haultain Building, New College, UTM and UTS Residence projects). As other projects start (Woodsworth Residence, Centre for Cellular and Biomolecular Research, Leslie Dan Pharmacy Building, Academic Resource Centre, Early Learning Centre, etc) they will be added into the master contract at the same blanket rates and coverage. The Bahen Centre for Information Technology was 'substantially complete' as of May 31, 2002 and is now covered under our CURIE policies. The Morrison Pavilion project will be completed in September and the COC policies will be terminated at that time.

We are presently looking at alternative means of providing surety bonding for our capital projects. Such a bonding alternative could produce savings between 10% and 25% of total project bonding costs measured over the life of our current capital plan. They involve either setting up an equivalent performance insurance arrangement or negotiating an owner-directed bond program with the Surety Association of Canada rather than requiring contractors to provide their own bonds. While the potential cost avoidance is attractive, there are certain risks associated with these alternatives which may make them unpalatable after close examination.

The only special transportation policy purchased last year was to ship the Blue Sky Solar Racer to Australia for a competition there.

PREMIUMS BY POLICY

Policy Name/Description	01/02	00/01	99/00
<u>General University Insurance</u>	<u>Premium</u>	<u>Premium</u>	<u>Premium</u>
Main property policy	\$559,219	\$520,488	\$491,045
Liability policies			
-comprehensive general liability *	261,210	219,096	209,571
-umbrella/excess liability	13,538	10,638	10,638
Boiler and machinery	95,950	112,320	112,320
Composite crime coverage	48,600	35,640	35,640
Personal professional property floater	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>
	<u>\$992,517</u>	<u>\$912,182</u>	<u>\$873,214</u>

* includes errors and omissions policy

User-directed Insurance

Term accident policies	\$ 3,295	\$ 7,479	\$ 5,315
Automobile blanket fleet policy*	62,647	53,020	56,451
Cogeneration facility**	47,258	56,160	56,160
Fine art collections	24,624	24,624	25,920
Major new construction projects (see note)	90,352	96,867	202,323
Special transit (Blue Sky Solar Racer)	<u>565</u>	<u>6,227</u>	<u>n/a</u>
	<u>\$228,741</u>	<u>\$244,377</u>	<u>\$346,169</u>

* includes self-insured premiums for collision and comprehensive

** included in boiler and machinery policy

Notes: All premiums include 8% PST (3% for Automobile policy).
 Term accident policies include AD&D (accidental death and dismemberment) and related coverages. The dental contingency policy was cancelled last year due to exorbitant cost.
 Cogeneration facility is insured as part of boiler and machinery policy but premiums are broken out separately for charge back.
 All project premiums are paid for the full term of construction when policies are taken out except for term/value adjustments at the finish of construction. Premiums are expensed in the fiscal year in which they are paid.

PREMIUM/LOSS HISTORY AND COMMENTARY

CURIE's property and liability premium rating formulae include a loss experience modifier for each subscriber so individual premiums can fluctuate plus or minus 20% depending on the subscriber's claims experience measured on a five-year rolling average. We have had no claims under our property policy for the last six years so we currently enjoy the maximum rate credit of 20% for good loss experience, however, because of higher insurable values, the premium still increased by nearly 7.5% last year. The liability policies fared poorly again as our rolling five year loss ratio went from 144.3% to 202.8% as the result of one large claim payment, so the rate penalty for this stayed at the maximum of 15%. In addition, because CURIE's overall liability loss experience deteriorated, they also imposed an across the board increase of 25% for all subscribers (15% in 2000). The table below illustrates the current and historical experience.

Property	1997/98	1998/99	1999/00	2000/01	2001/02	5 Yr
<i>Premium</i>	\$483,600	\$504,321	\$521,534	\$454,671	\$481,933	\$2,537,059
<i>Losses Paid</i>	0	0	0	0	0	0
Liability	1997/98	1998/99	1999/00	2000/01	2001/02	5 Yr
<i>Premium</i>	\$182,955	\$183,494	\$190,879	\$194,047	\$202,867	\$954,242
<i>Losses Incurred</i>	184,903	258,612	539,418	650,756	35,000	1,668,689

Note: Liability losses incurred include both paid and reserved claims, i.e. because liability claims generally take more than one policy year to settle fully, and the amounts can fluctuate based on claim development, these figures represent best available estimates.

Non-CURIE policies are purchased through insurance brokers and changes to these commercial contracts were mainly negative with double-digit premium increases due to the hardening of the general insurance market as detailed below.

We went through a difficult renewal a few years ago on the boiler & machinery policy due to very bad loss experience. The policy then negotiated with ACE/INA has been essentially loss-free since so we have managed to negotiate a 'good claims credit' of \$24,000 or 15% of the

premium as a discount at policy inception. This will apply so long as we keep losses below an agreed threshold and we renew with the same carrier.

B&M Policy	1997/98	1998/99	1999/00	2000/01	2001/02	5 Yr
<i>Premium</i>	\$71,821	\$168,480	\$168,480	\$168,480	\$143,208	\$720,469
<i>Losses Paid</i>	874,814	0	0	0	25,781	900,595

Factoring for bad loss experience two years ago (one large defalcation claim) our crime/fidelity policy was renewed at 26% higher premium. We carry a comprehensive fraud policy with a single insurer providing \$25 million overall policy limit.

Crime Policy	1997/98	1998/99	1999/00	2000/01	2001/02	5 Yr
<i>Premium</i>	\$33,107	\$35,640	\$35,640	\$35,640	\$48,600	\$188,627
<i>Losses Paid</i>	0	775,432	0	0	0	775,432

Our fine arts policy is near the middle of its current three-year term and with our good claims experience, we don't expect any change to this contract prior to the August, 2003 expiry.

Fine Arts	1997/98	1998/99	1999/00	2000/01	2001/02	5 Yr
<i>Premium</i>	\$25,920	\$25,920	\$25,920	\$24,624	\$24,624	\$127,008
<i>Losses Paid</i>	0	0	0	0	0	0

The vehicle fleet policy had only a few minor claims but we were levied a 40% premium increase at the last renewal and we've already been warned of another 25% rate hike this year due entirely to the hard commercial insurance market.

Auto Policy	1997/98	1998/99	1999/00	2000/01	2001/02	5 Yr
<i>Premium</i>	\$44,803	\$41,053	\$37,541	\$36,068	\$50,660	\$213,009
<i>Losses Paid</i>	4,085	5,213	5,520	2,102	5,753	22,673

General Insurance Structure

Limits of Liability	\$650 million	CURIE purchases an annual aggregate stop-loss reinsurance policy from FM Global Insurance for \$2.5 million above the first \$2.5 million of its primary \$5 million per loss retention. CURIE's maximum net exposure for any one loss or series of losses is \$2.5 million per year.			
	"All risks" of direct physical loss or damage to buildings and contents. Commercial market for \$645 million excess of CURIE's primary \$5 million limit	CURIE also purchases reinsurance from the commercial market in various layers above \$5 million to build its policy limit to \$20 million.			
	Quota Share subscription policies include FM Global, Citadel, Gerling Global, Axa Pacific and Allianz	\$100 million			
		Accidental Machinery Breakdown			
		100%			
		ACE/INA			
			\$15 million		
			Umbrella liability policy with Citadel General protects for \$10 million limit per loss above each of these policies and an excess policy with Gerling Global adds a further \$5 million coverage		
			\$20 million	\$20 million	\$25 million
			Comprehensive General Liability	Errors & Omissions Liability	Fidelity, theft of money and securities
Deductibles Applicable			100%	100%	100%
			CURIE	CURIE	London Guarantee
			(with 75% reinsured)	(with 85% reinsured)	
	\$5 million		\$5 million		
	CURIE Retention per loss (with 50% reinsured)		Liability Accident Benefits		
			100%		
	\$250,000		Liberty Mutual		
		\$15,000/\$100,000	\$5,000		\$5,000/\$25,000
	PROPERTY	BOILER & MACHINERY	GENERAL LIABILITY	AUTOMOBILE	ERRORS & OMISSIONS
					CRIME

INSURANCE RESERVE

We operate an internal reserve account for property insurance claims as a restricted fund to pay the difference between the actual CURIE insurance policy deductible of \$250,000 and a nominal 'responsibility' deductible of \$2,500 which the individual department incurring a loss must absorb. This deductible is set at a level which is intended to reinforce the custodial responsibility of departments for assets entrusted to them.

We expect the reserve to operate roughly in balance from year to year with paid claims being about equal to investment earnings and other income so the capital in the reserve fund is essentially preserved at approximately \$1.5 million. At prior fiscal year end, the reserve was somewhat higher than normal due to better than expected claim results and a sizeable dividend payment from CURIE in 1999. The present status of the reserve is shown in the table below.

General Insurance Reserve

Balance, April 30, 2001	\$1,683,427
Claims paid in current year (incl. claims from prior years)	(224,729)
Claims reserved (through to April 30, 2002)	(175,900)
Premiums saved from self-insurance*	25,389
Investment income for current year	<u>123,913</u>
Estimated balance, April 30, 2002	<u>\$1,432,100</u>

*automobile collision and comprehensive; personal professional property floater.

In some prior years, CURIE has paid out dividends to subscribers as surplus funds, on the advice of their actuary, were declared free for distribution by its Board. There was no dividend paid in 2000 and unfortunately, the 2001-year was also not a good one for CURIE. While its surplus position increased slightly from \$6.7 million in 2000 to \$7.2 million last year, it was still well down from the \$10.7 million surplus CURIE had in 1999 and so the CURIE Board decided against any dividend payment for 2001. CURIE is also warning about another sizeable rate increase next year due to worsening liability claims. CURIE's audited financial statements for 2001 and its annual report are available for review on request.

CLAIMS EXPERIENCE

The University's self-insured claims record improved somewhat in 2001 from the year before. While water damage and fire claims were more costly on average, the frequency of thefts involving computers and electronic equipment remains the chief cause of property loss on our campuses (about 75% of incidents). Along with many other institutions, we are experiencing an epidemic of audio-visual projector thefts. These expensive units (\$5 - \$10,000 each) are usually secured with heavy bolts or cables, normally ceiling mounted in classrooms and many were also equipped with audible alarms, but all these measures were insufficient to prevent their theft. Thieves are certainly becoming bolder and primary security measures are sometimes inadequate to stop them. Police report that thieves often work in organized gangs that target a number of University buildings over a brief span of time, then they disappear to another locale and repeat the pattern. This is a difficult problem to control given the size of the University, our location and accessibility of premises and with the large number of easily liquidated 'target risk' items (computers, especially laptops, projection equipment, printers, fax machines, etc) that we have in our premises. We must strive to be vigilant at all times.

The total dollar loss for all property claims is projected to be about \$347,000 for the year (about \$450,000 last year). So far we've paid out \$171,000 and have reserved \$176,000 for claims reported but not yet finalized. The largest self-insured loss (\$43,000) was at the Munk Centre where two 'touchpad' computer screens were stolen. These devices appeared to be no more than flat screen computer monitors but were actually highly sophisticated and expensive units used for interactive video projection. They are useless without the associated computer hardware and software that goes along with the screens and these elements were not stolen so the thieves obviously had no idea what they were stealing.

Last year an expensive scientific instrument was inadvertently dropped in the Pacific Ocean west of Vancouver Island when hydraulic tethering equipment failed aboard the research vessel which was towing it. Through the diligence of our researcher and with the help of a Canadian government ship and a borrowed submersible vessel, we managed to recover the instrument from the ocean floor earlier this year. And by great good fortune the instrument was undamaged and can be still be utilized after it undergoes some cleaning and calibrating. The cost to replace the instrument, had it not been recovered, would have been about \$120,000.

There were two minor claims under our boiler & machinery policy last year, one involving a switchgear failure in Medical Sciences Building and the other a high voltage underground cable failure in the southeast portion of the main campus. Both incidents were minimized by prompt emergency action by Utilities personnel and the total claim payments under the policy, net of deductible, were about \$26,000. These did not affect our premium at renewal as they were below the pre-agreed threshold for losses necessary to retain our 15% 'good claims credit'.

We made no claims under our crime/fidelity policy although there were two employee defalcations uncovered last year, however, in each case the amount of the provable claim was below the policy deductible. Both frauds were investigated by Internal Audit working closely with the departments involved and with Metro Police. The two employees were terminated for cause.

Legal liability claims remained relatively constant in frequency last year and, unlike previous years, there were no new large dollar lawsuits launched against the University that fell within the coverage afforded by our comprehensive general liability insurance policy with CURIE.

The number of reported slip and fall injury claims (11) is trending similarly to the year before as the winter was again relatively moderate with less than average precipitation and no severe concentration of snow or ice for any extended period. There were hundreds of potential liability incidents reported to the Risk Management and Insurance Office in the past year and 108 were judged to require investigation for insurance purposes. These resulted in 17 new claim investigation files being opened. Most are minor personal injuries or property damage accidents under the Occupiers' Liability Act involving students or members of the general public. A certain frequency of such occurrences is to be expected for an institution of our size. The average value of these claims ranges between \$500 and \$5,000 per occurrence.

The Risk Management and Insurance Department also acts as a paralegal intermediary in recovering funds from third parties for damages caused to University property including buildings, equipment and grounds. There were three incidents of this type last year and the amounts recovered or in process of recovery total about \$120,000. The largest involves damage to buried fibre optic cables adjacent Philosopher's Walk which were severed by a contractor doing work near the main pedestrian pathway.

RISK MANAGEMENT

Risk management is defined as the process of identifying and analyzing potential loss exposures in order to select the best way to protect assets and reduce loss possibilities. Risk is all around us and claims will always occur, but their impact can be minimized and contained within acceptable limits through an effective risk management program. The Risk Management and Insurance Department strives to be a consultative expert resource to the University community in advising about insurance, claims and paralegal issues related to risk management.

We continue to see a high level of activity in respect to contracts entered into by constituencies of the University such as student work placements especially in the clinical health sciences. Over time, there has been a heightened awareness within the University community about the risks associated with contracting to provide or receive services. This has led to a more balanced risk sharing environment with outside parties through better coordination and review of contracts. Examples include liability waivers and consent forms for student activities such as practicums or field trips, affiliation agreements with health care providers, volunteer agreements, construction contracts and facility/space rentals. These contracts, among others, are reviewed by the Risk Management and Insurance Department to make sure the University's interests are protected.

CURIE engaged loss control engineering experts to analyze the maximum dollar loss potential should a catastrophic fire engulf the main library complex. This is the heart of the University and has insured values in excess of \$1.5 billion. It is a serious concern to reinsurers as well since a loss could potentially exhaust CURIE's total policy limit of \$650 million. The two main recommendations made by the loss control experts are to install automatic fire sprinkler protection throughout Robarts Library and to upgrade the fire barrier rating of the bridge connecting Robarts with Thomas Fisher Library from two to four hour fire separation rating. These items were also presented to the Audit Committee as part the administration's review of the University's total risk environment and the two recommendations are currently being evaluated for feasibility and cost by Facilities and Services using outside contractors.

The Risk Management and Insurance Department continues to act as a resource to the University community about ways and means to reduce thefts of computers and similar 'target risk' equipment in order to alert departments about security measures which are available and to put them in touch with specialist suppliers of security devices. These range from local and central alarm systems and video camera surveillance to various types of locking or fastening cables, brackets and internal chip/memory securing mechanisms.

We continue to see an increasing tendency toward litigation in personal injury and civil liability matters, sometimes bordering on the trivial. It often seems the only requisite for demanding compensation is injury, real or imagined and regardless of fault or accidental circumstance. Lawyers are becoming involved in such situations as a matter of course and at a much earlier stage than before. This invariably means higher claim and expense costs as well as more time, adversarial wrangling and added complexity to resolve. The Risk Management and Insurance Department tries to prudently manage the University's claim litigation resources to keep dollar outflows to a minimum.

The Risk Management and Insurance Department has a director and 1.75 FTE support staff comprised of a policy and claims administrator and a shared secretary/ business officer. The department is located on the third floor at 215 Huron Street.